UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

CASEY CUNNINGHAM, CHARLES E. LANCE, STANLEY T. MARCUS, LYDIA PETTIS, and JOY VERONNEAU, individually and as representatives of a class of participants and beneficiaries on behalf of the Cornell University Retirement Plan for the Employees of the Endowed Colleges at Ithaca and the Cornell University Tax Deferred Annuity Plan,

Plaintiffs,

v.

CORNELL UNIVERSITY, THE RETIREMENT PLAN OVERSIGHT COMMITTEE, MARY G. OPPERMAN, and CAPFINANCIAL PARTNERS, LLC,

Defendants.

Case No. 16-CV-6525 (PKC)

DECLARATION OF SCOTT MATHESON

I, Scott Matheson, declare that the following is true and correct:

1. I am the Managing Director of the Consulting Solutions Group for CapFinancial Partners, LLC ("CapTrust"). I regularly contribute research and analysis, direct resources, and participate in advising plan fiduciaries on prudently evaluating investment options in 403(b) and 401(k) plans. The evaluation of plan investment options most commonly involves selection, monitoring and—when appropriate—deselection and replacement of plan investment options. I have personal knowledge of the facts described below.

2. The process for evaluating any given investment option should be built so that it contemplates differences, however slight, between the initial selection of an investment option,

monitoring a selected investment option, and ultimately deselecting and (most commonly) replacing an investment option, as circumstances warrant. A thorough evaluation process is complex, involves many elements, and can change over time.

3. The most common starting point for developing an evaluation process is determining why a particular investment option was selected in the first place. This creates a baseline from which monitoring and deselection/replacement processes can be constructed. The potentially relevant elements include: (1) the reasons why a particular asset class or specific investment category/type should be offered; (2) the reasons why a particular investment style or approach should be used to fulfill that asset class or particular investment category/type; (3) the net-of-fees past performance of an investment option (including comparisons to appropriate benchmarks and peer groups, and an assessment of the profile and characteristics of that investment option's historical returns); (4) the qualitative assessment of the portfolio manager/management team, support team (e.g., analysts, traders), and investment firm capabilities; (5) understanding the investment process and how that investment process syncs with historical returns; and (6) the qualitative assessment of the sustainability and repeatability of the investment process.

4. The decision on which share class to offer can become complex because institutional shares, with no or minimal revenue sharing, are not always "cheaper" at the end of the day than other share classes. For example, an investment option's "retail" share class may have an expense ratio of 0.50%, with 0.25% in revenue sharing, but the institutional share class for the same investment option might offer no revenue sharing yet charge an expense ratio of 0.30%. In this situation, the "net" investment management cost of the institutional share class actually costs more than the retail share class. As such, the plan (and plan participants) actually

paid more for the investment management of that particular investment option since the plan was able to capture the revenue sharing and use that money to pay for necessary administrative services.

5. Another consideration is which asset classes to offer. Generally, investment professionals agree on offering a menu with options that cover common asset classes such as U.S. equities, international equities, and core U.S. fixed income. However, decisions must be made about the appropriateness of various sub-asset classes which may differentiate among "value" and "growth" stocks, or across market capitalizations, or size, of the companies in which one might invest. When it comes to international equity asset classes, there are also considerations surrounding the appropriateness of investing in developing economies versus already developed countries.

6. Another consideration is whether to offer actively or passively managed (i.e., index) style investment options. While there are empirical ways to evaluate this question across various asset classes, results change over time such that point-in-time evaluations can be misleading—which means definitive conclusions are hard to draw across a multitude of asset classes.

7. Additional elements that may be considered at the time of selection include which investment options are available on the platform offered by the plan's recordkeepers, the current menu of investment options already offered by the plan, the plan's approach to paying other plan-related fees, the demographics of the plan's participants, and certain plan design features, to name a few.

8. One of the first steps in evaluating an investment option on a 403(b) plan's menu is to review its net-of-fees past performance.

9. To evaluate past performance, fiduciaries often compare past performance to an

appropriate reference. Commonly, fiduciaries look to peer groups of other investment options with similar goals (e.g., asset classes and investment style). Additionally, fiduciaries may compare investment option performance to specific benchmarks. Which benchmark is used can have a significant impact on whether any specific investment option is perceived as appropriate. Deciding which benchmark to employ, however, involves many judgments upon which experts can and do disagree.

10. To add a further complication to evaluating performance against benchmarks, often an investment option's governing document (most commonly a prospectus, as in the case of registered mutual funds) may list a benchmark that does not match the benchmark most investment professionals would use to evaluate that option or other options of a similar style. Additionally, since 2012, the Department of Labor has required certain retirement plans to disclose historical performance and fee information, along with the performance of an "appropriate broad-based securities market index" as a benchmark. A single broad-based benchmark, however, is not always the most appropriate one, and often differs from the benchmark disclosed in the prospectus or those commonly used by investment industry professionals. So which benchmark should be used: (i) the one identified in the prospectus, (ii) the one the investment professional thinks most appropriate, or (iii) the one mandated by the Department of Labor to be included in the fee disclosure? The answer is not always clear.

11. When CapTrust assesses an investment option, one component it considers is a qualitative assessment of the portfolio manager/management team, support team (e.g., analysts, traders), and investment firm capabilities. The goal here is to understand the investment process and how that process syncs with historical returns, and then ultimately assess the sustainability and repeatability of that process. At CapTrust we have a dedicated team of investment

professionals who conduct this research and draw such conclusions. This team spends significant time interviewing portfolio managers and other key portfolio management personnel, much of which is face-to-face.

12. How to assess the qualitative elements stems from a series of judgments. These judgments are based on extensive data, materials, and discussions. There is no "one size fits all" approach. Elements we typically evaluate in our qualitative assessments include firm ownership structure, employee compensation and incentives, personnel turnover, sufficiency of resources, ability to attract new talent, stability and history of the firm, stability and history of the investment team, legal and compliance issues, durability of investment "edge," investment philosophy, firm culture, team culture, quality of people, resources available, alignment of interests, repeatability of process, ability to source new ideas, portfolio construction methodology, and approach to risk management.

13. Our views and conclusions on these qualitative matters at the time of investment option selection create a baseline from which we can monitor the qualitative aspects of that investment option going forward. That is, the individualized, fact-intensive qualitative process applies not just to initial selection, but also to monitoring and evaluating performance post-selection. For instance, say that through our initial assessment we determine that a key investment analyst works on the fund and that she has consistently sourced most of the best returning investment ideas. If that analyst were to leave, we would be able to evaluate the anticipated impact of that departure because of the baseline we created.

I declare under penalty of perjury that the foregoing is true and correct. Executed on June 13, 2018.

Scott Matheson